

**Item 1 - Cover Page**

# Form ADV 2A Brochure

## Cadinha & Co., LLC

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March 30, 2022

This brochure provides information about the qualifications and business practices of Cadinha & Co., LLC. If you have any questions about the contents of this brochure, please contact us at (808) 523-9488. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Cadinha & Co., LLC is registered with the SEC as an investment adviser; however, this registration does not imply a certain level of skill or training.

Additional information about Cadinha & Co., LLC is available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

The last annual update of our Form ADV 2A Brochure was in March of 2021. Since the last annual update, we made the following material changes:

We entered into a new agreement with Envestnet Asset Management, Inc. (“Envestnet”) to provide model portfolios that are used by various third-party advisers using the Envestnet platform. See Item 4 for more information.

We have made other minor changes for stylistic reasons or to enhance clarity. We encourage clients to read this Brochure in its entirety and to contact us with any questions.

Pursuant to SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business’s fiscal year (our fiscal year ends December 31). We may further provide other ongoing disclosure information about material changes, as necessary.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. You may request our Brochure by contacting us at (808) 523-9488.

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**Item 4 – Advisory Business**Firm Description

Cadinha & Co., LLC (“Cadinha & Co.,” “we,” “our,” “us”) is an investment adviser with its principal place of business in Honolulu, Hawaii. We commenced operations in April 1979, and have been registered with the SEC since 1979. Cadinha & Co. is owned by Cadinha Acquisition Corp. and Cadinha Partners; Harlan J. Cadinha Family Limited Partnership is an owner of Cadinha Acquisition Corp.

Advisory Services

Our firm provides continuous and regular investment management services on a discretionary basis to various types of clients and client accounts, including but not limited to: individuals, trusts and estates, charitable organizations, pensions, profit sharing plans, and corporations. We manage client funds on a separate-account basis; we do not operate any pooled-investment vehicles such as mutual funds or limited partnerships. We seek to work with clients with \$1 million or more to invest (or subject to a minimum annual fee). At our discretion we may make exceptions for lesser amounts.

Cadinha Asset Allocation (“CAA”)

We provide advice to client accounts based on the individual needs of the client. Through personal discussion in which goals and objectives based on a client’s particular circumstances are identified, we develop a general investment policy and manage the client’s assets based on that policy. Clients’ investment policies may change over time as warranted. Our clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Our investment recommendations may include the following securities:

- Common stock (listed and over-the-counter; domestic and foreign)
- Warrants
- Corporate debt securities
- Commercial paper
- CDs and money market funds
- U.S. government securities
- Foreign debt securities
- Foreign currencies
- Commodities
- Real Estate Investment Trusts
- Exchange-Trade Funds and Notes
- Mutual fund shares

The securities and types of securities we hold in a client’s account at any point in time depend on (1) the client’s individual objectives and restrictions; and (2) our view of various securities’ risk and return potential.

For the vast majority of our clientele, our investment work also focuses on tactical asset allocation strategies. Rather than set a long term and static asset allocation for a client’s account (such as all equity, all fixed income, or balanced), we incorporate a forward view of markets and set asset allocations for clients we feel best combine each client’s personal objectives and restrictions with our view of the risk and return potential for various asset classes. Unless clients restrict us from doing so, a client’s asset allocation will likely change over time. For example, if our investment outlook is that stocks are overpriced (and risk has therefore increased for stocks), we will pare stock exposure in client accounts as appropriate; allocation to fixed income

securities and/or cash equivalents could increase at the same time. Clients have the ability to limit total asset class exposure or set allowable ranges. We establish such guidelines at the onset of our management with periodic updates as we communicate with our clients.

#### Managed Allocation Portfolio (“MAP”)

Under our MAP platform, we offer discretionary investment advisory services primarily using exchange-traded funds. We believe MAP to be especially suitable for those clients seeking tactical and opportunistic asset allocation strategies and management but with lower risks (and possible rewards) associated with individual security selection. We may recommend to clients our MAP program when we believe that based on the account’s size and brokerage/transaction costs, holding a diversified number of securities and having active security selection may result in higher risk of generating more trading costs than the value-added produced by such practices. We will also recommend MAP when a client doesn’t wish to own individual stock and bond securities and prefers securities that have inherently higher diversification potential.

#### Global Portfolio Strategies (“GPS”)

GPS offers discretionary investment advisory services using exchange traded funds and high-quality individual securities. GPS takes a global view and seeks to allocate assets opportunistically considering “top-down” and fundamental analyses. Our investment work generates views on capital markets and accordingly, we weight allocations between asset types (equities versus fixed-income), equity regions (U.S., Europe, Asia, Canada, and “frontier markets”), equity sizes (U.S. large cap, mid-cap, and small-cap) and fixed-income (fixed-income vs. cash equivalents). The result, we believe, is a complete and rational investment portfolio framework for long-term risk and return objectives while capturing nearer-term opportunities to mitigate risk and increase returns.

We currently have a GPS portfolio strategy for this return objective:

- Conservative Benchmark: 60% MSCI ACWI (TR)/40% Bloomberg Barclays U.S. Aggregate Bond Index

#### Consulting/Financial Planning Services

Generally, we utilize financial planning strategies to better understand the needs of our investment advisory clients. We encourage our investment advisory clients to ask us for general financial planning advice or consulting services. We often furnish such services for no additional charge although we may require compensation for certain planning or consulting services based on the nature of the services required by the client. We may provide consulting and financial planning services to non-advisory clients for a minimum fee of \$500 per hour.

#### Third Party Model Services

Cadinha & Co. has agreements with Adhesion Wealth Advisor Solutions (“Adhesion”) and Envestnet Asset Management, Inc. (“Envestnet”) to provide model portfolios that are used by various third-party brokers and advisers using the Adhesion and Envestnet platforms.

Cadinha & Co. receives compensation from Adhesion and Envestnet for its investment advisory services related to accounts of third-party advisers where we have been selected as the model provider. Generally, the client executes a contract with the program sponsor and the sponsor or third-party adviser selects which sub-adviser(s) or model providers will be utilized to meet the client’s objectives. Cadinha & Co. provides the sponsor with a specific strategy model portfolio and updates the model portfolio to the program sponsor whenever a change is made to the

model. Under these programs, Cadinha & Co. does not enter trades, receive trade reports and trade confirmations, and does not have access to record keeping or client specific reporting. Furthermore, Cadinha & Co. does not execute, acknowledge, or implement account specific trade restrictions, cash withdrawal/contribution requests, year-end tax harvesting, and generally does not interface with clients. Cadinha & Co. does arrange for trades to be executed by the sponsoring or referring broker-dealers in accordance with the current model recommendations, though those broker-dealers are ultimately responsible for all executions.

Cadinha & Co. provides services based upon a specified strategy model that is offered to clients of sponsor firms. Those firms determine the fees end clients will be charged, as well as which models or sub-advisers will be used. Cadinha & Co. will generally accept limited restrictions on investing in certain securities or types of securities, but does not provide investment advice on any other basis than that described above. Sponsor firms may set specific and mutually agreed upon investment parameters under this arrangement, including allowable securities, asset allocation ranges, and performance benchmarks. Cadinha & Co. may be one of multiple managers for a client under the program and operates in a sub-advisory capacity, with the sponsoring firm acting as the client's primary adviser. Overarching financial planning, asset allocation, trade execution, reporting, and performance monitoring among other services are provided by the sponsor firm under this arrangement. For the majority of our clients, we usually perform all the aforementioned services.

Our agreements with Adhesion and Envestnet require us to update models promptly and to implement appropriate trade rotation procedures. The intention is to ensure that accounts that follow the models, but which are not managed by Cadinha, are not systematically disadvantaged when compared to (1) accounts at different program sponsors using the same Cadinha models; and (2) accounts Cadinha manages directly and in accordance with the selected models. Cadinha is paid based on the assets being managed pursuant to the Cadinha models provided to the Envestnet and Adhesion platforms, and we have indicated the amount of assets on those platforms as "assets under advisement."

#### Cadinha Institutional

We provide investment management and consulting services to select institutional accounts on a fee-only basis. Services include investment management (furnished on a continuous basis for management of public securities only); asset allocation advice and monitoring; general investment oversight; market outlook; and/or educational services. For investment management, we seek institutions with \$5 million or more to invest (or subject to a minimum annual fee). For consulting and related services, we generally charge a minimum annual fee of \$100,000. At our discretion we may make exceptions for lesser amounts.

#### Assets Under Management

As of December 31, 2021, we managed 1,042,478,797 on a discretionary basis and \$0 on a non-discretionary basis.

We had assets under advisement on the Envestnet and Adhesion platforms of \$10,417,480.

### **Item 5 – Fees and Compensation**

Our fees are based upon a percentage of assets under management. The fee rates are stated annually but billed and paid quarterly—1/4 of the annual rate is applied to quarterly billings.

Balanced and Equity Accounts (Includes balanced and equity MAP and GPS accounts)	Annual Rate
First \$3 million of assets under management	1.00%
Next \$2 million	0.75%
Next \$5 million	0.50%
Over \$10 million	0.40%
Minimum Annual Fee: \$10,000	

Fixed Income Accounts (Includes fixed income MAP and GPS accounts)	Annual Rate
First \$1 million of assets under management	0.75%
Next \$4 million	0.50%
Next \$5 million	0.40%
Over \$10 million	0.25%
Minimum Annual Fee: \$10,000	

Cadinha Institutional (management)	Annual Rate
First \$5 million of assets under management	1.00%
Next \$5 million	0.70%
Over \$10 million	0.50%
Minimum Annual Fee: \$50,000	

Cadinha Institutional (consulting and other)	Annual Rate
Total assets under management	0.10%
Minimum Annual Fee: \$100,000	

For the initial invoice to a client, fees are prorated for the remaining calendar quarter based on the account value at the inception of our management. Thereafter, fees are billed 90 days in advance based on the account value as of the last day of the calendar quarter (March 31, June 30, September 30 and December 31). In certain situations, we may negotiate rates or terms other than what is specified above.

Clients may elect to have our fees deducted from their accounts. Clients with this arrangement receive quarterly notices stating the fees deducted.

Our services may be terminated by either party at any time with written notice. If a client terminates our services before the end of a calendar quarter, that client will receive a refund for the "unused" portion of fees paid in advance. The refund amount shall be prorated to the date specified in the termination notice. There are no penalties for cancellation or termination of our services.

Though not charged by or paid to Cadinha & Co., clients incur other costs in conjunction with our management. Clients pay brokerage fees and may pay custody fees to a brokerage and/or bank, the rates and amounts of which are determined by the brokerage or bank that clients choose. We are not a bank or brokerage and we provide no custody services. The custodial broker or bank may levy charges to clients for the investment transactions effected as a result of our management. Please see *Item 12 – Brokerage Practices* for more information on our approach to clients' brokerage and custody options.

We often hold securities for investment in client accounts that may involve other fees to clients. These fees are generally deducted from the net asset value of the securities held by the client. Such securities include:

- Exchange-traded funds and exchange-traded notes
- Money market funds
- REITs
- Mutual funds

These types of securities assess management fees that are reflected in the product's internal expense ratio, and are separate from and in addition to the advisory fees we charge. The rate, amount, and frequency of fees a client will ultimately incur from these securities are contingent on which securities we invest in and the amount invested.

Neither Cadinha & Co. nor any of its employees receive any compensation for recommending any particular investment strategy, including the sale of securities or other investment products. We receive no commissions from any client or third party.

#### Important Information for Retirement Investors

When we recommend that clients roll over retirement assets or transfer existing retirement assets (such as a 401(k) or an IRA) to our management, we have a conflict of interest. This is because we will generally earn additional revenue when we manage more assets. In making the recommendation, however, Cadinha & Co. will do so only after determining that the recommendation is in the client's best interest. Further, in making any recommendation to transfer or roll over retirement assets, we do so as a "fiduciary," as that term is defined in ERISA or the Internal Revenue Code, or both. We also acknowledge we are a fiduciary under ERISA or the Internal Revenue Code with respect to our ongoing investment advisory recommendations and discretionary asset management services, as described in the advisory agreement we execute with clients. To the extent we provide non-fiduciary services, those will be described in the advisory agreement.

#### **Item 6 – Performance-Based Fees and Side-By-Side Management**

We collect no performance fees for our investment advisory services.

#### **Item 7 – Types of Clients**

We provide advisory services to individuals, trusts and estates, charitable organizations, pensions, profit sharing plans, and corporations across Hawaii, the mainland U.S. and abroad. Generally, we seek to work with clients with \$1 million or more to invest (or subject to stated minimum annual fees listed in *Item 5 – Fees and Compensation*). At our discretion, we may make exceptions for lesser amounts.

**Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

We use a number of analyses in formulating investment advice and managing client assets, including:

- *Top-down and macroeconomic analysis.* We analyze overall economic trends and data as well as fiscal and monetary policies to get a “big picture” view of capital markets. We develop outlooks indicating which asset classes, types, sectors, and styles may be overvalued/risky or undervalued. Client’s asset allocation at any given time is largely based on this work. Our bond strategies are largely shaped by our top-down work as we focus mostly on duration strategies that seek to take advantage of perceived movements in interest rates.
- *Fundamental analysis.* We also conduct continuous research on a bottom-up basis, identifying asset classes and individual securities with attractive characteristics relative to its price.
- *Technical analysis (or trend analysis).* We will use technical analysis to gauge investor sentiment and the supply and demand dynamics for various securities, often after we’ve identified a security as a candidate to buy or sell on top-down or fundamental grounds. This work entails analyses of price charts, including price movement and trading volume.

Cash and cash equivalents are an ever-present investment consideration at Cadinha & Co. We may raise cash in client accounts—perhaps in significant percentages—when we believe a higher degree of capital preservation is warranted.

**Risk**

All clients and prospective clients should understand that investing in securities involves risk of loss that clients should be prepared to bear. Our management carries certain other risks besides overall market declines, including:

- *Asset allocation risk.* As we construct asset allocation strategies based on our outlook of capital markets, our investors are subject to the risk that our outlook, or implementation of our outlook, may be ineffective or unfavorable over any period of time.
- *Equity risk.* While we seek to invest in equities we believe have favorable capital appreciation and income potential with limited downside potential, our equity selections may result in capital loss for clients. Loss could also occur for a myriad of reasons including but not limited to, overall market loss, issuer-specific developments, interest rate movements, political developments, inflation, and competition.
- *Fixed income risk.* As our bond investing activities are largely based on our outlook for movements in interest rates, clients risk general under performance and even capital loss should interest rates move in an adverse way. For example, if we invest in long-term U.S. Treasury bonds and interest rates rise, the value of those bonds will decline. Other risks include credit risks (an issuer could default on its obligations to bond holders) and currency risks, as we may invest in bonds denominated in a currency other than the U.S. dollar.

- *Risks associated with cash.* As we raise balances in cash and cash equivalents from time to time, there is a risk we may do so in an ill-timed fashion. By directing client assets into cash, clients could experience smaller gains than they otherwise would.

These risks stated above may not be all the risks clients assume; clients may lose value or experience limited gains for a number of other reasons, including those that can't be anticipated. Clients should assume investing is a risky endeavor and understand that risks are not eliminated by using an investment adviser, including Cadinha & Co.

### **Item 9 – Disciplinary Information**

As registered investment advisers, we are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Cadinha & Co. or the integrity of Cadinha & Co.'s management.

There have been no disciplinary events and no material legal events related to our firm or any management person.

### **Item 10 – Other Financial Industry Activities and Affiliations**

We are an independent investment adviser with no parent organization or subsidiaries and no brokerage or custody operations. We manage no investment companies or limited partnerships. We recommend no other investment advisers to our clients (other than those in connection with certain securities we invest in such as exchange-traded funds and money market funds). We receive no compensation, directly or indirectly, from any adviser other than as a result of the separately managed account programs for which we act as sub-adviser.

Certain firms have recommended our management to clients, including doing so under wrap fee arrangements. See *Item – 4 Advisory Business* under header *Wrap Fee Programs* for information on formal wrap fee programs in which we participate.

On occasion, brokers and financial planners from a number of firms will recommend our investment advisory services to their clients. These arrangements are not necessarily formal arrangements between other firms and Cadinha & Co., and may or may not be characterized by the referring firm as “wrap fee programs.” In the event these clients wish to retain us for management, we serve them as we do our other clients, enter into our standard advisory agreement, and apply our normal fee schedules. In many cases, referred clients pay their broker or financial planner a fee that covers custody, trading costs, portfolio monitoring, and financial planning from that firm, while Cadinha & Co. provides discretionary investment management. Such arrangements usually require that a specific brokerage firm be used and, if trades are placed with another brokerage firm, the client will be charged separately for brokerage commissions. Therefore, when a client has entered into a wrap free agreement, or where the client has agreed to direct brokerage to the referring firm (See “Directed Brokerage” in *Item 12 – Brokerage Practices*, below), we are generally not free to seek a competitive price or execution by placing transactions with other brokers or dealers. While it has been our experience that the selected broker-dealer generally offers execution in keeping with our “best execution” practices, no assurance can be given that such will continue to be the case in the future. Accordingly, clients may wish to satisfy themselves that the broker-dealer can provide adequate price and execution for the investments recommended by us.

**Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Cadinha & Co. has adopted a Code of Ethics that sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. Our firm and personnel owe a fiduciary duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of applicable securities laws and our Code of Ethics but also to the spirit of both.

The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on giving or accepting significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All of our firm's employees must acknowledge the terms of the Code of Ethics annually, or as amended.

All employees must submit all brokerage statements to the Chief Compliance Officer or designee monthly or at least quarterly to ensure compliance with our policies and Code of Ethics.

Employees are generally prohibited from acquiring any securities in an initial public offering or private placements, in order to preclude any possibility of their profiting improperly from their position with an adviser. Prior approval by the President is required for such trading to occur. We also generally prohibit securities transactions and other business transactions with clients or other investment professionals outside the scope of our normal advisory business. Employees must seek prior approval from the President/CEO and Chief Compliance Officer to ensure compliance with our policies and Code of Ethics.

Any new material conflicts with clients that arise over time will be addressed and disclosed promptly to clients in writing.

Any client or prospective client can request a copy of our Code of Ethics, free of charge, upon request.

**Item 12 – Brokerage Practices**

Clients generally select the broker-dealer or custodian they want for their account's brokerage and custody needs. In the event a client does not have an existing arrangement, we do make recommendations, but clients may also choose other brokerages or custodians, provided that such an arrangement is acceptable to us. We may decline working with prospective clients if:

- (1) we feel the selected brokerage/custodian's fees (transaction, custody and/or other) are too high or there are other characteristics particular to the brokerage/custodian we feel would not serve in the client's best interests; or
- (2) working with the selected brokerage/custodian would be too burdensome or costly for our operation.

**Recommendations of Brokers/Custodians**

If clients do not already have a custodian or broker, we often recommend that they establish brokerage accounts with Schwab Institutional, division of Charles Schwab & Co., Inc. ("Schwab") or with Fidelity Brokerage Services LLC or National Financial Services LLC

(together with affiliates, “Fidelity”). Schwab and Fidelity are registered broker-dealer, members NYSE/SIPC and provide custody of client assets and effect trades for client accounts.

#### How We Select Brokers/Custodians

We seek to recommend a custodian/broker that will hold client assets and execute transactions on terms that are, overall, most advantageous when compared with other available providers and their services. We consider a wide range of factors, including:

- Combination of transaction execution services and asset custody services
- Capability to execute, clear, and settle trades (buy and sell securities for the account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, ETFs, etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate prices
- Reputation, financial strength, security and stability
- Dedicated service team and local personnel
- Prior service to us and our clients
- Availability of other products and services that benefit us, as discussed below

We have determined that having Schwab or Fidelity execute trades on behalf of those clients custodied with them is consistent with our duty to seek “best execution” of client trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above.

#### Brokerage and Custody Costs

Schwab generally does not charge clients separately for custody services but is compensated by charging commissions or other fees on trades they execute or that settle into clients’ accounts. Schwab is also compensated by earning interest on the uninvested cash in Schwab’s Cash Features Program or on any margin balance maintained in Schwab accounts. Fidelity has changed its fee structure to incorporate minimum pricing for custodial services, which may make their custodial services less attractive overall, depending on client circumstances. We will consider the impact of overall charges in recommending any custodian.

Most stock and ETF transactions no longer incur commissions or transaction fees through Schwab or Fidelity; commissions and transaction fees are only incurred on trades of certain mutual funds. Schwab discloses their fees and costs to clients and we take those costs into account when executing transactions on our clients’ behalf. Custodians generally charge a flat dollar amount as “prime broker” or “trade away” fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into the client’s Schwab or Fidelity account. These fees are in addition to the commissions or other compensation paid to the executing broker-dealer. Because of this, in order to minimize trading costs, we have the client’s custodian execute most trades for client accounts held with that custodian.

Certain mutual funds and ETFs are made available for no transaction fee; as a result the confirmation may show “no commission” for a particular transaction. Typically, the custodian

(but not Cadinha & Co.) earns additional remuneration from such services as recordkeeping, administration, and platform fees, for the funds and ETFs on their no-transaction fee lists. This additional revenue to the custodian will tend to increase the internal expenses of the fund or ETF. We select investments based on our assessment of a number of factors, including liquidity, asset exposure, reasonable fees, effective management, and low execution cost. Where we choose a no-transaction fee fund or ETF, it is because it has met our criteria in all applicable categories.

*Products and Services Available to Cadinha & Co. from Custodians we Recommend*

The custodians we recommend make available various support services to us. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. These support services are generally available without our requesting them and at no charge to Cadinha & Co. Following is a more detailed description of these services:

*Services that Benefit Clients*

The custodians' institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through the custodians include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. These services general benefit clients and client accounts.

*Services that May Not Directly Benefit Clients*

The custodians also make available to us other products and services that benefit us but may not directly benefit clients or client accounts. These products and services assist us in managing and administering our clients' accounts. They include investment research, both that produced by the custodian and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including if we had accounts not maintained with that custodian. In addition to investment research, the custodians also make available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

*Services that Generally Benefit Only Cadinha & Co.*

The custodians also offer other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers
- Marketing consulting and support

- Occasional business entertainment of our personnel

Schwab or Fidelity may provide some of these services themselves. In other cases, they will arrange for third-party vendors to provide the services to us. The custodians may also discount or waive fees for some of these services or pay all or a part of a third party's fees. We make limited use of the services in this section. We are most likely to use compliance and technology consulting and to attend conferences and other educational events, some of which include business entertainment.

*Cadinha & Co.'s Interest in Schwab and Fidelity's Services*

The availability of these services from Schwab and Fidelity benefits us because we do not have to produce or purchase them, and we don't have to pay the custodian for them. This creates an incentive for us to recommend that clients maintain their accounts with these custodians, based on our interest in receiving services that benefit our business rather than based on clients' interest in receiving the best value in custody services and the most favorable execution of their transactions. While this incentive creates a conflict of interest, we believe that our recommendation of Schwab and Fidelity as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab and Fidelity's services (see "How We Select Brokers/Custodians") and not those services that benefit only us.

Brokerage for Client Referrals

Our recommendations for broker-dealers are generally not based on whether or not we receive referrals from a broker-dealer or third party. As discussed in *Item 10 – Other Financial Industry Activities and Affiliations*, and below under "Directed Brokerage," in some cases the referral of a client to our management requires the referring broker be used for execution. This does not, however, constitute our recommendation of that broker for execution. We do, though, receive client referrals from Schwab through our participation in Schwab Advisor Network ("the Service"), a network designed to help investors find an independent investment adviser. Schwab is a broker-dealer independent of and unaffiliated with Cadinha & Co. Schwab does not supervise us and has no responsibility for our management of clients' portfolios or our other advice or services. We pay Schwab fees to receive client referrals through the Service, so our participation in the Service raises potential conflicts of interest described below.

We pay Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by us is a percentage of the fees the client owes to Cadinha & Co. or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. We pay Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to us quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by Cadinha & Co. and not by the client. We have agreed not to charge clients referred through the Service fees or costs greater than the fees or costs we charge clients with similar portfolios who were not referred through the Service.

We generally pay Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from Schwab. This Fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees

Advisor generally would pay in a single year. Thus, we will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of Cadinha & Co.'s clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, we will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit our fees directly from the accounts.

For accounts of Cadinha & Co.'s clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from our clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, we may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. Cadinha & Co. nevertheless, acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for our other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

#### Directed Brokerage

When using "directed brokerage," clients instruct us to execute transactions through a specified broker-dealer. We permit clients to direct brokerage, primarily in cases where the client is referred by a broker or other third-party (see *Item 10 – Other Financial Industry Activities and Affiliations*) and, as part of the client's arrangement with that broker or third-party, the client wishes us to execute transactions subject to our investment discretion through the referring broker. By accepting directed brokerage, Cadinha & Co. may be unable to achieve most favorable execution of client transactions. Directing brokerage may cost clients more money. For example, clients may pay higher brokerage commissions because Cadinha & Co. is not able to negotiate commission rates, aggregate orders, or execute them through brokers that may provide lower execution costs.

#### Soft Dollars

On occasion, when clients do not direct or select brokers (for example, when custody of the client's assets is at a bank or trust company) we direct transactions to a list of approved brokers who provide research products and services (i.e., research reports, economic advice, real-time quotes and news products). In certain instances, we request brokers to provide specific research products or services that may be proprietary or may be produced by third parties. Under these circumstances, we will internally allocate business (commissions) to brokers who provide research products or services we feel are useful. To the extent that we use client transactions to obtain research information, we may have an incentive to place a greater volume of transactions or pay higher commissions than would otherwise be the case. Where products and services can be used for both research and non-research purposes, we will make an appropriate allocation of its uses and will only permit brokers to provide that portion of the services or products that assists us in our investment decision-making processes.

Our use of client brokerage commissions benefits our firm as the soft dollar benefits generated by directing trades to brokers pay for research and other services and products that we would otherwise have to pay for. At any particular time, we may have an incentive to direct trades to

certain brokers based on our demand for their research, rather than on our client's interest in receiving best execution.

It is our policy to only direct trades to those brokers we deem to be competitive with other brokerage options. Our Trade Review Committee that periodically reviews our best execution processes and effectiveness. The Committee also monitors soft dollar benefits and reviews, with the input of members of our Investment Committee, the research we receive versus the soft dollars used to "pay" for that research as well as the trading costs for the executions with the broker/research source. If a broker whose research we highly demand offers transactional terms that are not in keeping with our best execution policies and processes, we will not direct trades or soft dollars to that broker. In such a case, we will seek to pay for the research ourselves.

Research products and services provided by brokers benefit all client accounts and not just those that paid for the benefits. We do not actively seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.

#### Trade Aggregation

It is generally our practice, when feasible, to first aggregate as many orders into single transaction orders (blocks) by broker-dealer or custodian and then execute the purchase or sale in rotation. Shares purchased or sold in block orders are allocated pro-rata among the accounts that participated in the block.

Our procedures for aggregating trade orders ensures that no trading block or single advisory account will be consistently favored over other blocks or accounts.

#### **Item 13 – Review of Accounts**

Client account information, including quantities and values of securities held, costs and the amounts of cash and cash equivalents for each client is maintained in our computer systems. Account information is reconciled against statements or electronic files from appropriate custodial agents generally daily, but no less than monthly.

It is our policy for portfolio managers to review their clients' accounts no less frequently than monthly. Reviews cover account balance, cash balance, asset allocation, position count, position weight, and sector weight, among other factors. Managers are also responsible for ensuring that client accounts are in keeping with the stated objectives and restrictions of the client. Reviews of accounts are also triggered by purchases and sales of securities holdings, investment strategy changes, rebalancing exercises and particular client need.

Our portfolio managers are:

Harlan J. Cadinha, Chairman & Chief Investment Strategist & CIO  
Kaleialoha K. Cadinha-Pua`a, Vice Chairman, President & CEO  
Bradley F. Totherow, CFP, Vice President  
Harlan B. K. Cadinha, Vice President  
Vicky Canto, Director of Business Development  
Victor A. Canto, Chief Economist & Global Strategist  
Skyler Keate, Vice President of Operations, Head Trader  
Michael D'Addario, Vice President

We provide clients we directly advise with quarterly portfolio reports. We urge clients to carefully compare the quarterly reports we provide with those provided by their custodian and to notify us of any differences. Additionally, clients receive periodic Outlook pieces, newsletters and blogs that include our general investment outlook. Clients are free to contact us to receive information regarding the investment tactics and strategies being followed.

## **Item 14 – Client Referrals and Other Compensation**

### Client Referrals

We may pay referral fees to independent persons or firms (“Solicitors”) for introducing clients to us. Whenever we pay a referral fee, we require the Solicitor to provide the prospective client with a copy of our Firm Brochure and a separate disclosure statement that includes the following information:

- the Solicitor’s name and relationship with our firm;
- a statement that the Solicitor will be compensated for his solicitation services by our firm;
- the terms of such compensation arrangement, including a description of the compensation paid or to be paid to the Solicitor; and
- whether the fee paid to us by the client will be increased above our normal fees in order to compensate the Solicitor.

As a matter of practice, the advisory fees paid to us by clients referred by Solicitors are not increased as a result of any referral.

### Other Compensation

Other than the referral program described in *Item 12 – Brokerage Practices* referencing the *Schwab Advisor Network*, we do not currently participate in any formal referral programs with other financial firms where we provide compensation for client referrals.

## **Item 15 – Custody**

Cadinha & Co. is not a broker-dealer and does not take possession of client assets. Our clients’ assets are held at qualified custodians. As described in the applicable investment advisory agreement, we generally have limited power of attorney to place trades on the client’s behalf. The custodian will issue trade confirmations and monthly (or quarterly) statements directly to clients. We urge clients to compare the information in their quarterly statements from us with the statements provided by their custodian.

We previously disclosed in *Item 5 – Fees and Compensation* that clients may elect to have us deduct fees directly from their accounts. As part of this billing process, the client’s custodian is advised of the amount of the fee to be deducted from that client’s account. Clients receive copies of all invoices submitted to their custodians. Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in the fee calculation or deduction.

## **Item 16 – Investment Discretion**

We generally have limited power of attorney to act on a fully discretionary basis on a client’s behalf, in which case we place trades in a client’s account without contacting the client prior to each trade to obtain the client’s permission. Our discretionary authority includes the ability to (1)

determine the security to buy or sell; and/or (2) determine the amount of the security to buy or sell.

Clients give us discretionary authority when they sign a discretionary agreement with our firm. Additionally, we accept any reasonable limitation or restriction to such authority placed by the client when done so in writing. Clients may also change or amend such limitations by providing us written instructions.

### **Item 17 – Voting Client Securities**

Generally, we vote proxies for client accounts unless a client chooses to vote proxies on his or her own account.

We vote proxies in the best economic interests of our clients and in accordance with our established policies and procedures. In the case of ERISA clients, we accept our fiduciary responsibility to vote proxies in the best interest of plan participants and their beneficiaries.

In certain cases, we may not be able to vote proxies, including:

- when proxies are received by us with insufficient time to vote and submit before a proxy's deadline;
- when a custodian under-allocates votes to which our clients are entitled;
- when securities are classified by the client as “non-discretionary” and we have no management authority over such securities;
- when we conclude that the effect of voting on shareholders' economic interests or the value of the portfolio holding is indeterminable or insignificant; and
- when voting a proxy requires unreasonable costs and resources (i.e. voting proxies for certain foreign or esoteric issues may require an unjustifiable amount of cost and management resources that may ultimately run contrary to our clients' best interests).

We retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document that was created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how we voted proxies.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting us. Clients may request, in writing, information on how proxies for their shares were voted.

### **Item 18 – Financial Information**

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

We are not aware of any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.